Remarks of Kathleen B. Cooper
Under Secretary for Economic Affairs
Remarks to the National Economists Club and the Committee on the Status of Women in the Economics Profession
October 11, 2001
Washington, DC

As prepared for delivery

For more than three decades now the National Economists Club has brought legislators, regulators, business leaders, and fellow economists to this forum to discuss economic theory and public policy approaches. Thank you for this opportunity to visit with you today. I am pleased to participate in the NEC's tradition of leadership.

We are at the dawn of the era of "globalization". The U.S. economy is the center of a world that only now – believe it or not – is really beginning to generate strong momentum toward market liberalism. But as that liberalism progresses and as economies integrate with one another, the U.S. will become less of the focal point for world trade. And that's not a bad thing.

So, the first thing I'd like to discuss is what this new view of globalization means to us and to others.

Second, I want to acknowledge that the U.S. is highly globalized and that there is no turning back now because of tensions either in this country or abroad.

Third, the current world trade system is asymmetric. Most countries trade a lot with the United States but relatively little with their close neighbors. An exception is the highly integrated OECD countries.

Fourth, a multilateral trade approach is needed to correct this asymmetry and to strengthen the whole of the world economy. The United States must foster free trade not only for us, but so that other parts of the world can also enjoy free markets.

Let me start with a bit about what I am doing now and how I see my role in the administration. As Under Secretary for Economic Affairs, it is my honor to work with and manage a strong team of economists and statisticians, who calculate and calibrate the economic and social data you rely on daily.

For example, our shop will produce and release U.S. international trade numbers next week and advance third quarter GDP figures at month's end. All told, the Economics and

Statistics Administration and its component parts are among the world's premier chroniclers of American economic, demographic, and social activity.

To many, it is amazing -- the power of this data to move markets and drive public policy. To us, it is natural.

One of my surprises in my five months on the job is just how much information is produced by the Economics and Statistics Administration and its component parts -- the Census Bureau and the Bureau of Economic Analysis. I simply had never before tallied their end-product.

More and more, information is a tie that binds nations, neighbors, and allies. Information connects family and friends, buyers and sellers, and facilitates global markets.

We are committed to improving. We are committed to keeping pace with rapid changes in the world around us by using technology to increase accuracy, improve timeliness, and reduce burdens on data suppliers.

The Definition of Globalization

"Globalization" means vastly different things to the demonstrators in Seattle, Quebec, and Genoa than it does to many of the rest of us. Globalization means different things to people in various parts of the world. No doubt, at the November World Trade Organization ministerial meeting in Doha, Qatar those differences -- those tensions -- will be seized upon.

In September, the World Trade Organization paved the way for China's membership, which will be confirmed in Doha in November. Protesters will decry and ministers will toast what I believe is an historic step for international economic cooperation and for a rules-based, multilateral trading system. -- A system that facilitates an economist's definition of globalization: the free flow of goods, labor and capital across country borders and the "national" treatment of foreign firms.

New York Times columnist Tom Friedman's definition is similar -- that globalization is the integration of capital, technology, information and production across national borders.

My read of President Bush's view on the subject is that globalization is economic engagement where trade is a core principle upon which foreign policy can be based.

Consequently, the Bush Administration has made Trade Promotion Authority a priority. President Bush's ability to negotiate trade pacts will enlarge the sphere in which market economies are allowed to operate for the benefit of people everywhere.

To put it simply, we intend to be the free trade administration where--

- The U.S. and our trading partners launch global negotiations;
- Barriers are torn down;

- America and Americans benefit from still lower tariffs; and where
- The United States prospers as the rest of the world prospers.

But some in America argue for limiting our so-called entanglements with the rest of the world. They would prefer that we create new, more narrow boundaries. They would prefer we wall off certain parts of our economy or certain parts of the world. In truth, protectionists and protestors would limit economic opportunity for consumers and workers alike. Now more than ever, the U.S. must continue to develop trade as an engine of economic growth for the international economy.

That engine of economic growth also powers democratic advances, human rights, and the rule of law. Globalism fuels economic and social betterment. As President Bush said in July at a speech at the World Bank, those that would obstruct globalization are "no friends of the poor." Or as former Mexican President Zedillo said, those aligned against globalization are "determined to save the developing world from development."

U.S. is highly globalized and there is no turning back now

Today, October 11, it is impossible to discuss international relationships without remembering the events of exactly one month ago. The damage to our financial center and our defense center was horrific. But symbolically, the near simultaneous attacks demonstrate that there can be no strong American world leadership without strong leadership on the financial stage. The attack should not scare us away from global engagement. Rather, it strengthens our resolve and reminds us that there can be no American security without economic security.

American defense and security agencies are have begun to respond to the attack. In a different manner, the financial and economic sectors must respond as well. And our response must be to continue to lead the integration of the world economy.

The nexus between economics and international relations is well founded. Today, just as in the century past, economic ideas were implemented and exported to advance foreign policy goals -- World War II, the Marshall Plan, the Cold War.

Globalization is not "Americanization." The U.S. must take a leadership role but not a dominating role. Real globalization will occur when all nations participate and prosper.

Sixty years ago, we worried about conflicts between France, Germany, and the U.K. Now, while neighborly rivalries exist, it is unlikely that war will erupt among these nations that trade with each other and invest in each other so extensively.

Today, we worry about conflicts in the rugged geography of Central and South Asia and the Middle East, between people who taught the ancient world a great deal about trade. But where trade is now held hostage to politics. After all, this is the land of bazaars and the Silk Road.

What would a generation or two generations of trade mean among these countries? Potentially, trade could result in openness, the rule of law, and other economic reforms.

And, of course, the U.S. benefits from a more peaceful, more prosperous world. . As trade develops between other countries, their incomes rise and they can afford more of the products that our firms excel at making. Last week, for example, just down the hall from my office, China signed a contract for 30 Boeing aircraft. In the future I expect some of these planes will be advancing trade between China and its Indian, Russian, and Indonesian neighbors. And as these economies develop, some of the high intensity pressure on our own manufacturers may be eased as firms the world over find that the U.S. is not the only market for them to target. Of course we always believe that ours will be the best market.

To achieve these advances we must understand that trade is part of both our economic and our foreign policies. Our trading partners, our allies, and our coalition members must know that the President's negotiators speak for the United States.

There has been no doubt in the last month, as the Secretary of State seeks international support for our war on terror, that he speaks for the President.

There is agreement now that Trade Ambassador Robert Zoellick and our negociators should have the latitude --in consultation with Congress of course -- to speak for the United States. Trade Promotion Authority makes our word our bond on such agreements.

The issue before Congress this week is not if the President should have Trade Promotion Authority. The question is what final form will that authority take.

I am hopeful that the final agreement on Trade Promotion Authority will give the President the flexibility to negotiate trade agreements that open markets and opportunities on a multilateral basis.

Asymmetry

As Americans, we like to put America at the center of the world map. But turn your globe around. From the Baltic to the Indian Ocean stretch four countries encompassing one-half the world's population or three times that of all OECD countries. Although Americans don't like to admit it, many beyond our hemisphere see China, India, Russia, and Indonesia as the central geography of the world.

Each is liberalizing its economy – opening markets to the outside world. But none can be considered globalized. China has made the most progress, but had the farthest to go. Russia is making strides, but must commit to casting off systemic corruption. India is moving gradually. Its 1992 reforms are gaining momentum as the economy feels the positive impact. Indonesia is the most open, but it wrestles with international capital flows and is still largely commodity driven.

Each country continues to have huge problems integrating its internal economy. Physical size, geography, weak infrastructures, and complex politics make it more difficult for each to open internally than externally. Their shells are opening to foreign trade but the economies inside are autarkic.

Each is experiencing rapid growth. China has had the fastest-growing GDP over the last four quarters. India was second, Russia third, and Indonesia fifth (the Czech Republic was fourth). Part of the reason for this strong growth may be that GDP in each of these countries is poorly measured, and the data do not yet capture the recent turning point in world growth.

But the growth also suggests that these countries are large enough to be less sensitive to a global slowdown than some other smaller nations.

Russia, China, India, and Indonesia are huge and growing markets, and the U.S. needs to advance bilateral trade with each. But remarkably, these countries, these neighbors, barely trade with each other. We see an extraordinary lack of integration within this vast stretch of geography and people.

In this way, the world trade system is asymmetric. The highly globalized U.S. economy is trading extensively with two-thirds of the world, which is not itself integrated. Clearly, <u>multilateral</u> trade promotion is needed to spur business not only between the U.S. and the developing economies, but also among the emerging nations themselves.

In each of these countries we see a lack of regional integration. We also see a paradox of opportunity and obstacles.

China

China is the world's second largest economy. It is home to 1.26 billion people with a per capita GDP of $3600. There is a will for free markets, but still intolerance for freedom itself.

In 1992, China's exports and imports totaled $167 billion. China's trade with Russia, India, and Indonesia combined was less than half the total trade with the United States.

By 1999, China's trade had more than doubled (to $360 billion). The U.S. accounted for almost <u>one quarter</u> of China's trade. Despite their proximity, together Russia, India, and Indonesia accounted for just <u>three percent</u>.

The U.S. is China's number one trading partner. Japan is second.

India

India has made great strides in economic growth and output, but overpopulation and dire environmental and poverty concerns create a troubling paradox.

India's foreign trade also doubled in the seven years from 1992 to 1999 -- but from a base that was only half that of China's.

In 1992, only $1 billion of India's total $42 billion trade was with Russia, China, and Indonesia and most of that was with Russia for military items. Nearly six times as much of its trade was with the United States.

Russia

Secretary Evans' trade mission to Moscow next week emphasizes the importance of integration Russia into the world economy.

But inside Russia, modernizing a Soviet-era industrial base could be a key to a sustainable market economy after a decade of trying.

Russia's trade performance from 1992 to 1999 was weak. In 1992, Russia's trade with China and India totaled eight percent of total trade. Trade with Indonesia was negligible. Trade with these countries remained stagnant through 1999, and their share of Russia's trade fell to only six percent. Russia clearly has not taken advantage of the recent strong growth of the Chinese and Indian economies.

In contrast, Russia's trade with the United States rose at a rapid 13 percent annual rate and the U.S. share of Russia's trade jumped from under five percent to nearly nine percent.

Indonesia

Citizens of Indonesia, the world's largest Muslim country, inhabit 6000 islands. Not surprisingly, rule of law across the archipelago is a worry for free market forces.

Indonesian trade growth was severely interrupted by the Asian financial crisis of 1997 and 1998; hence its overall trade rose at only a five percent pace between 1992 and 1999. Trade with Russia is negligible but trade with its two big neighbors, China and India, is beginning to flourish. Trade with China rose at double-digit pace as did trade with India. Their share in Indonesia's trade thus rose from a small four percent in 1992 to a still small seven percent in 1999.

Trade growth with the United States was severely hampered by the financial crisis -- the collapse in its exchange rate and the consequent large drop in Indonesian imports from the U.S. Still, the U.S. maintained a 13 percent share of Indonesian trade, and we were its second most important trade partner after Japan.

If we analyze foreign investment we would see much the same picture. Large amounts of capital are flowing back and forth between these countries and OECD countries but very little is flowing between them.

Multilaterialism

To recapitulate, it is remarkable how much China, Russia, India, and Indonesia trade with the U.S. and how little each trades with the other. The future -- and the worldwide benefits -- of globalization depend on more trade and more investment between and among other countries -- in addition to trade with the U.S. Growth in incomes abroad will lead to U.S. growth and will reduce world and economic tensions -- as has happened over the past 50 years with economic integration of Western Europe.

The future of globalization should not be modeled on a wheel, with spokes emanating only from the U.S. in the center. Successful globalization will be modeled on a patchwork multilateral map where the U.S. may not always be the focal point.

Bilateral agreements with Vietnam, Singapore, Chile, and Jordan are important to opening trade doors with these critical regions. But exponential advantages will occur when these trading partners extend agreements to other neighbors. Multilateral trade liberalization is superior to bilateral liberalization.

The successes of NAFTA are many and will grow if Chile is included. The Free Trade Area of the Americas will foster a hemisphere of trade. But in practical terms, extending NAFTA to South America will require Trade Promotion Authority. We must tighten the rigors of our policymaking to ensure that we can grow our own trade and lead other nations to an integrated economic marketplace.

The U.S. has a vested interest in a healthy -- multilateral -- world trading system. Our own opportunities for foreign sales and foreign investment will rise with more complete globalization.

A world economy focused on the open goods and capital markets of the United States clearly is beneficial to our growth and our standard of living. Real resources in terms of imported products and financial resources in terms of foreign investment have kept inflation and interest rates low. Investment assets such as equities, bonds, and real estate all have done very well over the past decade. And growing foreign markets have been good for our exports as well.

Imagine the benefits to China, Russia, India, and Indonesia if trade between them begins to thrive. Gains in their incomes from comparative advantage and economies of scale will be enormous. And their income gains will be good for U.S. exporters.

Might there be future events that could reverse this process of globalization? It seems unlikely, but we in the economics profession need to do a better job of understanding and explaining what is happening in the U.S. and world economies. There certainly are areas worthy of research.

For example: What does it take to encourage integration and trade between Russia, China, India, and Indonesia?

Does trade in goods, capital, and/or labor have to expand as globalization matures? Or does the simple fact of open markets and equal factor prices make it less necessary for international movements?

There is much less labor movement, for example, between the U.S. and Europe and Japan now that wages are fairly equal than in previous generations when large disparities existed. With equalized prices, won't even small transportation costs inhibit trade? If so, a globalized world economy might still be highly diverse, culturally and ethnically.

It is clear that we are in an era where the U.S. is committed to a policy of economic engagement that includes expanding the exchange of goods and capital across borders. The U.S. is the leader -- but we may not always be the center -- of an increasingly globalized world.   We should go into the Doha meetings in full support of a multilateral agreement that breaks down barriers among countries.

But we do not go to Doha without a sense of our newly altered times and the paradox of this first WTO meeting in the Arab world.

We do not go to Doha without an appreciation for the commitment on all sides that allows China to open and integrate itself into the world economy. We should work to secure that same level of commitment to bring Russia into the WTO as well.

The goal in Doha should be to draw a map of trade where participation and benefits reach from corner to corner.

When considering this multilateral approach, we should be mindful -- as U.S. Trade Ambassador Bob Zoellick has said, "expanded trade and commerce is not a zero-sum mercantilist calculation."   A common trade agenda and an integrated world economy benefits all parties – the U.S. and the nations of the developed and developing world. Simply put, it's a win-win.

This quote from de Tocqueville maybe too romantic for a group of economists and perhaps naïve in these tenuous times. But it is telling.

"Trade makes men independent of one another and gives them a high idea of their personal importance: it leads them to want to manage their own affairs and teaches them to succeed therein. Hence, it makes them inclined to liberty but disinclined to revolution."

What de Tocqueville misses in his definition is competition -- competition between and among individuals and countries. -- Competition in prices, wages, design, and innovation, as opposed to competition for land or religious superiority.

Globalization is integration of economies. It is competition and cooperation. It is opening doors and societies and minds not just between the U.S. and its trading partners but also among the rest of the world.